

THE VALUE OF HEALTH CARE BENEFITS



**BUDGET AND CONTROL BOARD
DIVISION OF INSURANCE AND GRANTS SERVICES
SOUTH CAROLINA STATE HEALTH PLAN**

2004

At A Glance: Health Costs, Insurance and The Value of the South Carolina State Health Plan

Nationally

- By 2003, Americans were spending \$1.7 trillion annually in health care – 15 percent of the entire economy. That figure is expected to nearly double by 2012.
- Since 1998, employees' out-of-pocket healthcare expenses have risen more than 250 percent, and health-benefit costs per employee have risen 57 percent since 1997.
- The national average cost to employees for family coverage is up 49 percent from just three years ago.

South Carolina

- The State Health Plan's per-person expenditure has doubled since 1992, rising from \$1,142 to \$2,599 in 2003.
- Claims paid reached a record \$966.2 million in 2003, and per-subscriber claims exceeded \$4,653 – up from the 2000 figure of \$3,454.
- Drug payments more than doubled between 1999 and 2003, to \$269.9 million.

State Health Plan: South Carolina's Insurance Value

- There were no subscriber premium increases from 1991 through 2000.
- Between 1991 and 2000, when subscriber premiums were not raised, the average expenditure per person increased 88 percent. Employers alone absorbed the additional cost in premiums.
- Even with the 2004 rate changes, employers will pay 72% of the total cost to cover each employee.
- Total contribution rates for the State Health Plan are less than the 2004 U.S. and regional averages.

16 percent **lower** than the Southern Average
23 percent **lower** than the Western Average
34 percent **lower** than the Midwestern Average
34 percent **lower** than the Northeastern Average
27 percent **lower** than the U.S. Average

*These averages take into account different levels of coverage, such as employee only, employee / spouse, employee / child etc.

How The South Carolina State Health Plan Continues To Provide High-Quality, High-Value Benefits During A Period of Soaring Health Care Costs

One of the most significant issues facing the Budget & Control Board is how to manage the increasing costs of health benefits for state employees. To date, the Board has had great success. Employees continue to receive an affordable, high-quality benefits package that is substantially less expensive than comparable products in the private sector. Deductibles have risen at a rate lower than the inflation rate. Premiums are below the U.S. and regional averages.

However, double-digit cost increases and state budget shortfalls have combined to put a strain on the State Health Plan (SHP). The challenge now facing the Budget & Control Board is how to continue providing a high-value benefits package at the most affordable possible price.

Background

Health care costs rose more slowly in the 1990's than they did in the previous decade, a trend that has been attributed in part to the spread of managed care. But as the nation entered a new century, healthcare expenses began to soar at an alarming rate. By 2003, Americans were spending \$1.7 trillion annually in health care – 15 percent of the entire U.S. economy. According to the Centers for Medicare and Medicaid Services, that figure is expected to roughly double by 2012, at which time healthcare will make up 17.7 percent of the U.S. Gross Domestic Product.

There are a number of reasons for this unprecedented increase in costs. They include:

- Prescription drug costs
- Increased demand for services
- Medical inflation
- Drugs, medical devices, and other advances
- An aging population
- Growing number of uninsured
- Government regulation
- High rates of major disease
- Poor personal health practices

According to the Towers Perrin Health Care Cost Survey, the prime driver is the rising cost of prescription drugs, which accounts for 11-14 percent of all health care spending. The survey puts the annual cost of prescription drugs at \$95 billion, and projects it will reach \$350 billion in 2010, when it is expected that 16 percent of Americans' healthcare spending will be for prescription drugs. In South Carolina, prescription drug costs make up 28 percent of the state's plan.

But regardless of the specific root of these increases, spiraling health costs have

been felt by employers and employees. The most recent Kaiser Family Foundation study reports that annual healthcare costs for employers are up 16 percent for a single worker and 27 percent for a worker and his/her family. At the same, it finds that rising costs – driven by factors such as medical technology and increased drug costs – are outpacing the 2.2 percent rise in overall inflation and the 3.1 percent increase in wages for non-supervisory personnel. Since 2000, workers' contributions to their health insurance has increased nearly 50 percent for individual as well as family coverage.

The March 2004 "Management Barometer" from PricewaterhouseCooper produced similar responses. It found that 86 percent of employees face higher healthcare program contributions, and 72 percent face higher deductibles. The same study also showed that 87 percent of the executives polled had adopted one or more approaches to reduce their program. The top tactics were increased co-pays for brand-name and generic drugs (71 and 69 percent of respondents, respectively). Additionally, 15 percent said they had reduced or eliminated coverage for some drugs.

Retirees are also paying the price. A new report by Kaiser and Hewitt Associates found that 10 percent of the 408 large private-sector firms surveyed had eliminated health benefits for retirees in the past year, and an additional 20 percent were likely to do so within three years. Eighty-six percent said they also planned to charge current retirees more for health benefits while 40 percent said retirees now pay full cost in their plans.

But retirees aren't the only subscribers seeing reductions in benefits. According to the Society for Human Resource Management, employers reduced or eliminated a broad range of benefits in 2002, including HMO coverage, employer-funded health reimbursement accounts, well-baby programs, and prenatal programs. Similarly, Hewitt Associates found that 10 percent of employers plan to reduce covered services in 2004.

There is no sign that the cost crisis is ebbing, either.

A study by the Washington Business Group on Health revealed that 57 percent of employers plan to increase cost-sharing in 2004, and employers in a Mercer Human Resources Consulting survey predict the cost of health benefits will rise 13 percent in 2004. Beyond that, a Kaiser survey revealed that half of the employers it questioned will likely increase co-pays for prescription drugs as well.

High Costs Extend To South Carolina

States have not been immune to the soaring costs of healthcare or their impact. State budget deficits have increased by a combined \$26 billion – or 50 percent – since November, a figure that is expected to reach \$68.5 billion in Fiscal 2004, The Los Angeles Times reports. Skyrocketing healthcare costs are a key contributor to the deficits, and have forced 13 states to reduce Medicaid expenditures. State Sen. Angela Monson of Oklahoma, president of the National Conference of State Legislatures, said that without federal assistance to cover Medicaid, many states will be forced to raise taxes.

South Carolina faces similar conditions, which have translated to greater

insurance expenses for state employees. The SHP's per-person expenditure has doubled since 1992, rising from \$1,142 to \$2,599 in 2003. Coverage that cost \$200 in 1972 would cost \$860 today – an increase of 370 percent, according to the Bureau of Labor Statistics. And the cost of three days of claims paid in 2002 equaled the entire amount of claims paid in 1972.

There are a number of factors that, while not unique to South Carolina, have contributed to the state's rising healthcare costs. A study for the South Carolina Department of Health and Environmental Control (DHEC) found that a general lack of activity among citizens was a leading cause of heart disease, high blood pressure, colon cancer, diabetes, and osteopathic falls resulting in fractures. The total price tag for these five conditions alone: \$157 million in hospital costs.

The study also found that more than half of South Carolina adults are overweight or obese, which researchers have linked to diabetes, heart disease, and some cancers. Today, obesity accounts for 9.1 percent of all U.S. health care costs, totaling \$92.8 billion in 2002. Additionally, overweight and obese individuals pay significantly more – 11.4 percent and 26.1 percent, respectively – in out-of-pocket medical expenses, according to 1998 figures.

But perhaps the biggest factor is smoking. A quarter of all South Carolinians are smokers, and 28.7 percent of males and 21.5 percent of females are at risk for smoking-related illnesses. DHEC reports that more than \$765 million is spent annually in health care related to tobacco use in this state.

State Health Plan Continues To Provide High-Value Product

Yet even as health care costs registered double-digit increases, the SHP was able to effectively manage costs for state employees:

Deductibles have decreased in real dollars since 1972. An individual who paid \$100 in deductibles in 1972 would pay \$439.95 in 2003, adjusted for inflation; a \$300 deductible for a family in 1972 would be \$1,319.86 in 2003.

Subscriber premiums remained constant while claims paid increased.

Between 1991 and 2000 when premiums were not raised, the average expenditure per person increased 88 percent. Employers alone absorbed the additional cost in premiums.

The SHP has been able to continue providing a high-value benefits package despite the fact that claims paid reached a record \$966.2 million in 2003 – \$269.9 million of which was spent on prescription drugs. Moreover, per-subscriber claims exceeded \$4,653, up from the 2000 figure of \$3,454 and more than nine times higher than they were in 1980. And drug payments more than doubled between 1999 and 2003, to \$269.9 million, while the average drug payment per insured life rose 138 percent.

After a decade of holding the line on subscriber premiums, declining state

revenues and increasing medical costs forced the Budget and Control Board to raise subscriber premiums for 2004. Despite this, the SHP continues to be a good value. It rates favorably with plans in other Southern states.

- 16 percent lower than the Southern average
- 23 percent lower than the Western average
- 34 percent lower than the Midwestern average
- 34 percent lower than the Northeastern average
- 27 percent lower than the U.S. average

Not only that, but only one of the 14 states in the Southern region had lower average total (employee and employer) premiums.

State Health Plan Takes Lead in Education

Recognizing the role that state employees can play in holding down personal health care costs and premiums, the SHP has undertaken a comprehensive program designed to raise awareness of and promote the value of healthy lifestyles. Elements of this program are targeted at some of the most expensive problems – including smoking and obesity, two issues mentioned above that are driving up costs – as well as providing a range of additional educational information.

As part of this effort, the SHP has initiated an internal communications audit to determine the best means to distribute this and other relevant information; prepared background reports tracing how SHP has managed to continue providing a high-value benefits package despite cost increases; advice for how individuals can reduce their costs; and a full-service website that makes it easy and convenient for enrollees to access all this information, as well as facts about their coverage, forms, and frequently asked questions.

*These averages take into account different levels of coverage, such as employee only, employee / spouse, employee / child etc.

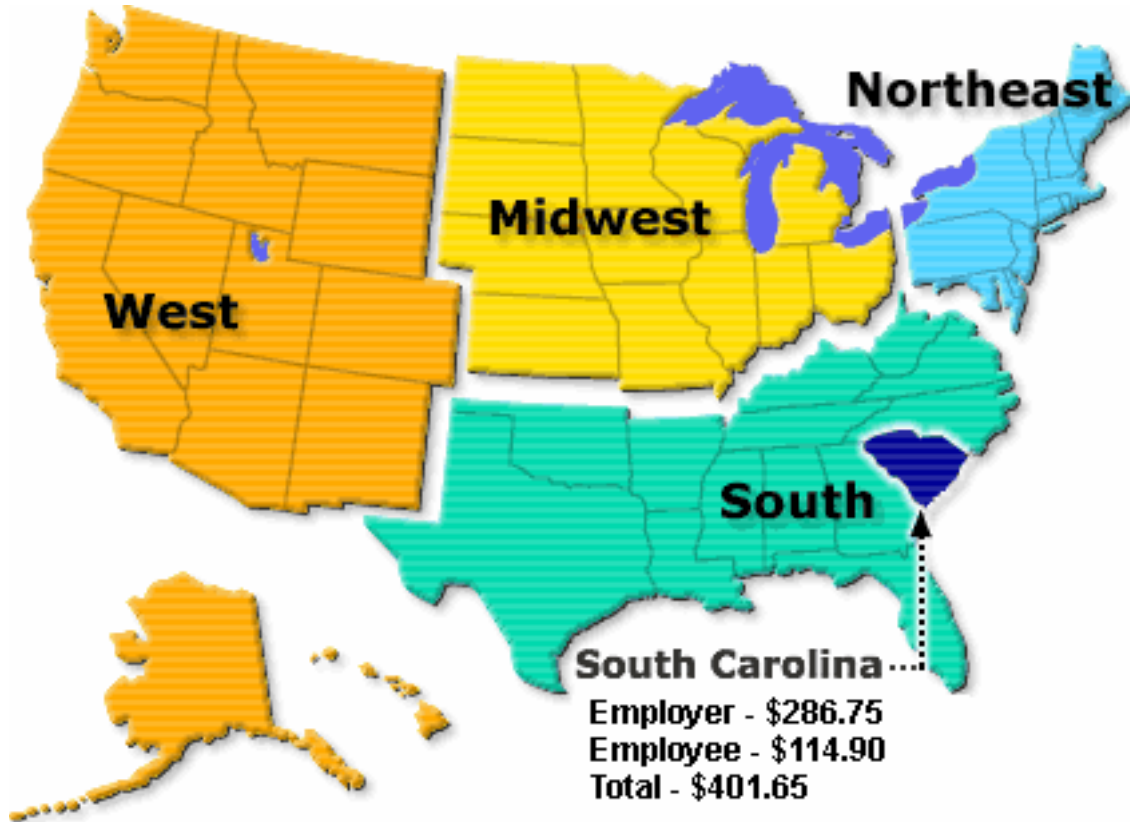
The SHP has also entered into partnerships with organizations and agencies to make critical health-related information available to the broadest number of citizens, including:

- Normal Arnold School of Public Health at the University of South Carolina
- College of Pharmacy at the University of South Carolina
- SC Department of Health and Environmental Control's Tobacco Cessation Program
- SC Department of Health and Environmental Control's Child and Maternal Health Program
- Office of Research and Statistics' Health and Demographics Section

These activities will help ensure that even in the wake of rising costs and falling state revenues, SHP will continue to provide state employees with the best possible benefits package at the most affordable price.

Appendix A

**2004 State Employee Health Plan Composite Premiums for
Indemnity Plans, by Regional Averages***

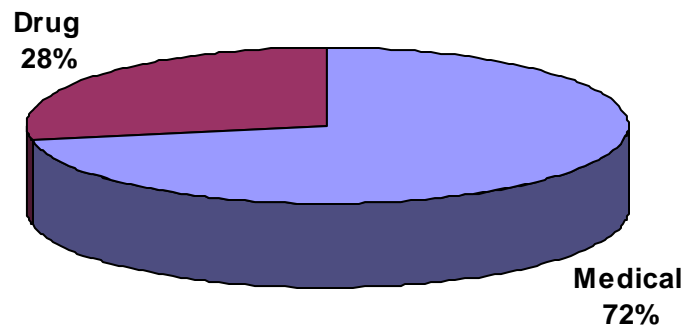


	South	South Carolina
Employer	\$373.83	\$286.75
Employee	\$101.79	\$114.90
Total	\$475.62	\$401.65

*These averages take into account different levels of coverage, such as employee only, employee / spouse, employee / child etc.

Appendix B

**2003 State Health Care Plan Claims Payout
(in Millions)**

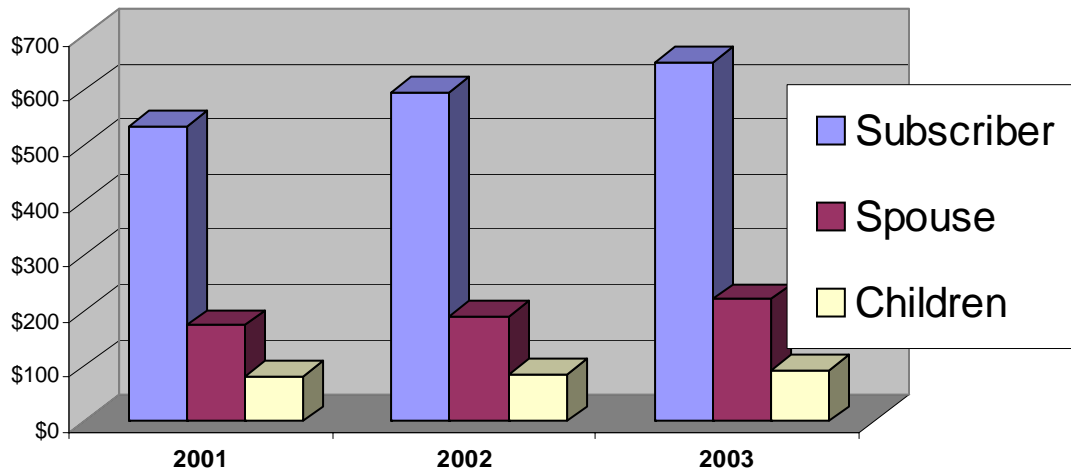


Total Dollars Spent on Prescription Drugs: \$269.9 M.

Total Dollars Spent on Medical: \$696.3 M.

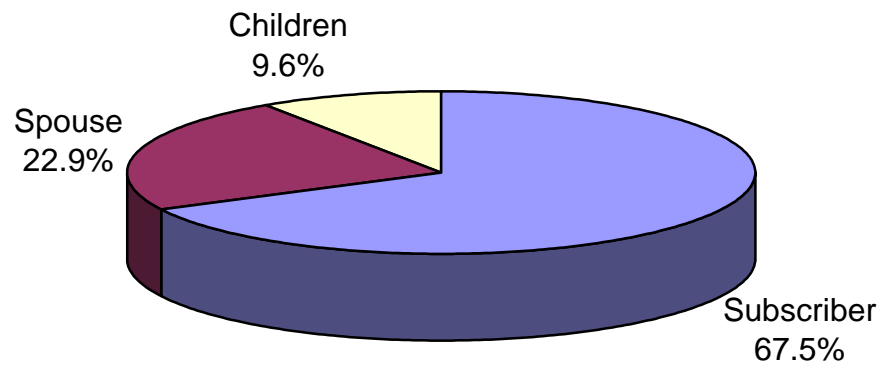
Appendix C

State Health Plan Payments (in Millions of dollars)



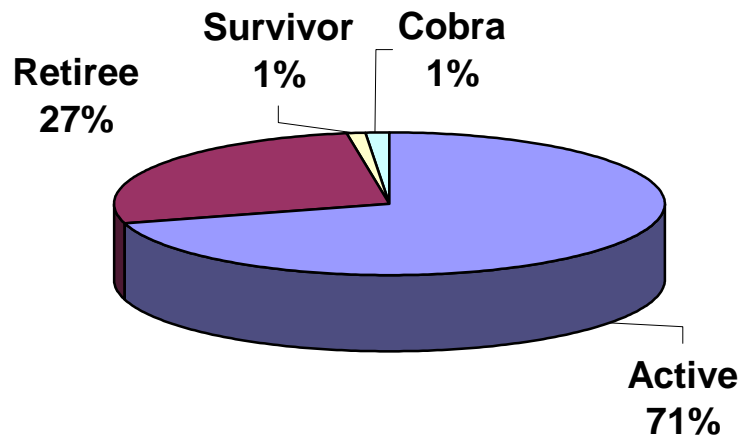
Appendix D

State Health Plan 2003 Payments
Total Cost: \$966.2 Million

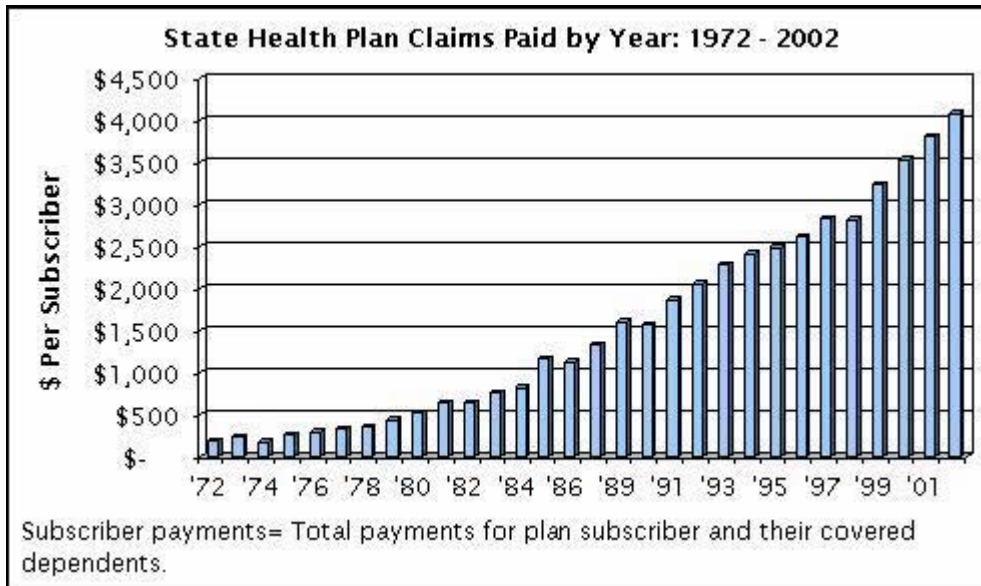


Appendix E

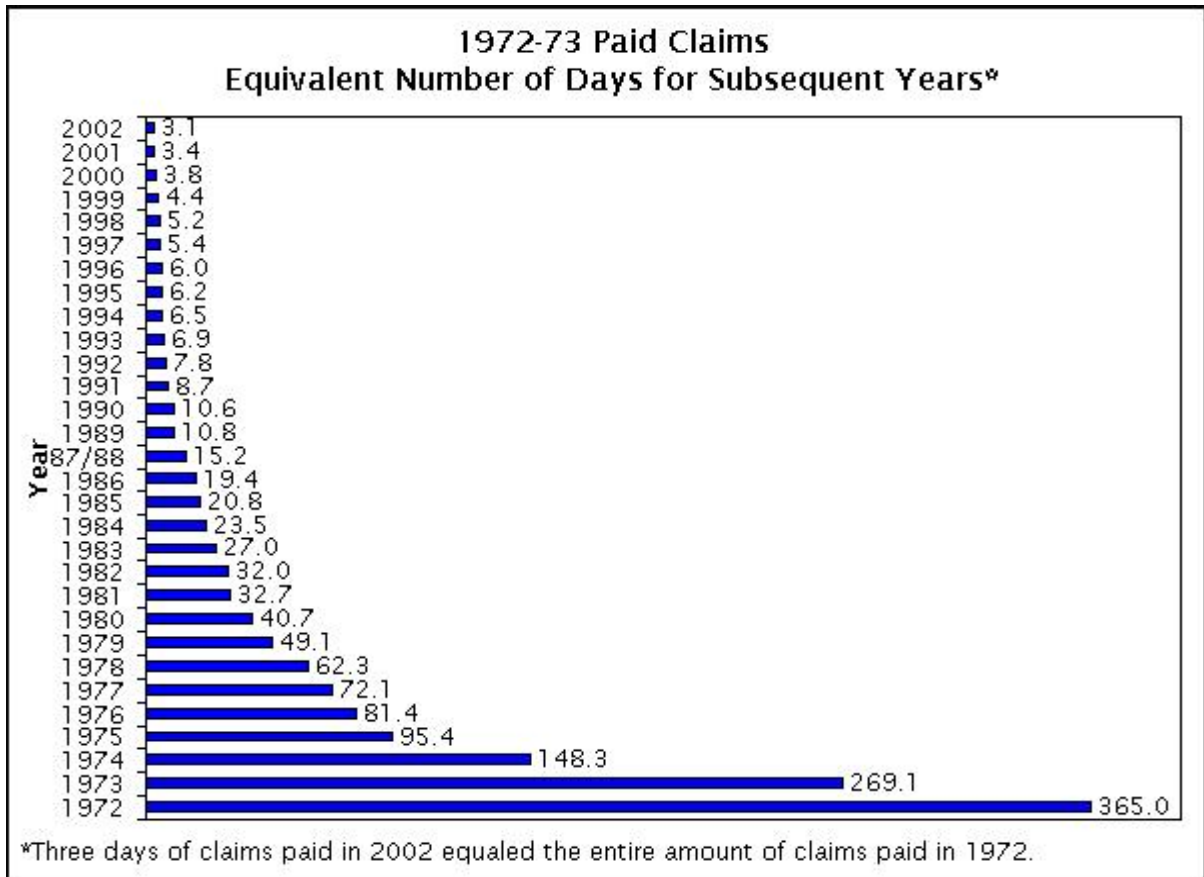
State Health Plan 2003 Payments
Total Cost: \$966.2 Million



Appendix F



Appendix G



Appendix H

2003 State Health Plan Prescription Drug Activity by Cost (in Millions)

Formulary Description		Total Amount Paid	
1.	Psychotherapeutic Drugs	\$32.8	67% of total amount paid
2.	Ulcer Therapy	\$27.0	
3.	Lipid/Cholesterol Lowering Agents	\$25.3	
4.	Antihypertensive Therapy	\$23.2	
5.	Diabetes Therapy	\$17.7	
6.	Non-Narcotic Analgesics	\$15.7	
7.	Pulmonary Agents	\$11.7	
8.	Musculoskeletal & Rheumatology	\$9.8	
9.	Anticonvulsants	\$8.5	
10.	Antihistamine & Antiallergenic	\$8.0	
All Others		\$90.2	
Total Spent on Prescription Drugs		\$269.9	